

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SALT RIVER ELECTRIC)	
COOPERATIVE CORPORATION, INC. FOR AN)	
ADJUSTMENT TO ITS RETAIL ELECTRIC POWER)	CASE NO. 94-384
TARIFFS)	

O R D E R

On December 2, 1994, Salt River Electric Cooperative Corporation, Inc. ("Salt River") filed an application to reduce its rates for retail electric service by \$2,263,929 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Salt River's customers a decrease in power costs proposed by Salt River's wholesale power supplier, East Kentucky Power Cooperative, Inc. ("East Kentucky").¹ The decrease in power costs proposed by East Kentucky became effective January 1, 1995, subject to further modification, and Salt River's proposed rates became effective simultaneously under the same condition.

Intervening in this matter was the Attorney General of the Commonwealth of Kentucky, by and through his Public Service Litigation Branch ("AG"). A public hearing was held April 27, 1995 at the Commission's offices in Frankfort, Kentucky.

On July 25, 1995, the Commission approved a rate decrease for East Kentucky which was greater than it had proposed.

¹ Case No. 94-336, The Application of East Kentucky Power Cooperative, Inc. for an Adjustment to Its Wholesale Power Tariffs.

Consequently, Salt River's power costs will decrease by an additional \$461,775 annually for a total decrease of \$2,725,704 annually. The manner in which this total decrease is passed on to Salt River's customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

Salt River proposed to reduce its rates to reflect the full amount of East Kentucky's wholesale rate reduction. Salt River utilized an "equal reduction per Kwh" methodology which provides retail customers the same reduction per Kwh for all energy charges. This approach results in a straight pass-through of the East Kentucky decrease with no change to Salt River's existing rate design and no impact on its financial condition. Salt River was one of fourteen customers of East Kentucky utilizing this methodology while three others utilized the "equal percentage of revenue" methodology.

The AG recommends that the decrease be allocated on an equal percentage of revenue approach. The AG contends that this is the most equitable approach and its use here, in the absence of a cost-of-service study, is analogous to its use by the Commission in general rate cases when no cost-of-service studies are acceptable for revenue allocation purposes. The AG also questioned the continuation of the Electric Thermal Storage ("ETS") program and urged, if the program is continued, that retail ETS rates not be set below East Kentucky's wholesale off-peak energy rates. Noting that some Salt River rate schedules contained demand charges that were less than East Kentucky's proposed wholesale demand charges,

the AG recommended that all retail demand charges be at or above the wholesale demand charges.

In rebuttal, Salt River contended that both revenue allocation methodologies are reasonable and that one should not be favored over the other. Salt River supported East Kentucky's ETS program and urged that the existing ETS rate structure be maintained. Salt River indicated that, through the combination of its retail demand and energy charges, it was adequately recovering wholesale demand charges. It also noted differences in measuring demand at the wholesale and retail levels, i.e. coincident versus non-coincident peak, and that many of East Kentucky's cooperatives have historically priced retail demand charges below the corresponding wholesale demand charge.

Based on the evidence of record and being otherwise sufficiently advised, the Commission will approve the "equal reduction per Kwh" approach for allocating the decrease to retail rate classes for the following reasons. (1) The wholesale rate decrease from East Kentucky consists of decreased energy charges (per Kwh); therefore, an equal reduction per Kwh is a reasonable approach for the retail pass-through of the wholesale power cost decrease. (2) When a change in retail rates is caused by a change in only one expense item, purchased power, it is neither necessary nor appropriate to use a "percentage of revenue" allocation methodology. The Commission has at times utilized such a methodology where revenues are adjusted to reflect changes in multiple expenses. Here, however, revenues are being changed to

reflect only one expense, purchased power. Under these circumstances, it is logical and reasonable that a change in cost be identified and reflected in the resulting change in retail rates.

The ETS rate issue is essentially moot due to the Commission's decision in East Kentucky's rate case to set the wholesale off-peak energy rates well below the retail ETS rate. The Commission, therefore, will approve the continuation of the existing ETS rate structure. Finally, on the issue of pricing retail and wholesale demand charges, the Commission recognizes that retail demand should not be priced below its wholesale cost. However, due to differences in measuring retail and wholesale demand, i.e. non-coincident versus coincident peak demands, below cost pricing cannot be presumed. There is no evidence to demonstrate that Salt River is not fully recovering its demand cost in retail demand rates. In addition, several of East Kentucky's distribution cooperatives indicated that they would be performing cost-of-service studies in the relatively near future. Salt River's next cost-of-service study should address the issue of retail recovery of wholesale demand cost.

IT IS THEREFORE ORDERED that:

1. The rates in Appendix A, attached hereto and incorporated herein, are approved for service rendered on and after the date of this Order.

2. Within 20 days of the date of this Order, Salt River shall file with the Commission revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 26th day of July, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 94-384 DATED July 26, 1995.

The following rates and charges are prescribed for the customers in the area served by Salt River Electric Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SCHEDULE A-5 FARM AND HOME SERVICE

Rates:

All KWH Per Month	\$.05166 Per KWH
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SCHEDULE A-5T FARM AND HOME SERVICE - TAXABLE

Rates:

All KWH Per Month	\$.05166 Per KWH
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RESIDENTIAL MARKETING RATE SCHEDULE R-1

Rate:

All KWH	\$.03100
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SCHEDULE B-2 COMMERCIAL AND SMALL POWER SERVICE

Rates:

All KWH Per Month	\$.05740 Per KWH
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SCHEDULE LLP-1 LARGE POWER SERVICE (OVER 37.5 - UNDER 500 KW)

SCHEDULE LLP-1
LARGE POWER SERVICE (OVER 37.5 - UNDER 500 KW)

Rates:

All KWH Per Month	\$.03937 Per KWH
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SCHEDULE LLP-2
LARGE POWER 500 KW UNDER 3,000 KW
(SECONDARY VOLTAGE)

Rates:

All KWH Per Month	\$.03606 Per KWH
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SCHEDULE OL
OUTDOOR LIGHTING SERVICE

Rate Per Fixture

175 Watts Mercury Vapor	\$7.50
100 Watts Sodium Vapor	7.65
250 Watts Sodium Vapor	9.32
400 Watts Sodium Vapor	11.88
100 Watts (Under ground)	8.60

SCHEDULE OL-1
STREET LIGHTING SERVICE

Rates:

All KWH Per Month	\$.05570 Per KWH
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SCHEDULE LLP-3
LARGE POWER 500 KW - 3,000 KW
(PRIMARY VOLTAGE)

Rates:

All KWH Per Month

\$.03599 Per KWH

SCHEDULE LLP-4-B1
LARGE POWER 1,000 KW - 2,999 KW

Rates:

Consumer Charge

\$1,552.50 Per Month

Energy Charge

.02673 Per KWH

SCHEDULE LLP-4-C1

Rates:

Consumer Charge

\$1,552.50 Per Month

Energy Charge

.02673 Per KWH

SCHEDULE LPR-1
LARGE POWER 3,000 KW AND OVER

Rates:

ALL KWH

\$.02449 Per KWH

SCHEDULE LPR-2

Rates:

All KWH

\$.02449 Per KWH

SCHEDULE LPR-1-B1

Consumer Charge

\$2,980.00 Per Month

Energy Charge - All KWH

.02188 Per KWH

SCHEDULE LPR-1-C1

<u>Consumer Charge</u>	\$2,980.00 Per Month
<u>Energy Charge - All KWH</u>	.02188 Per KWH

SCHEDULE LPR-1-B2

<u>Consumer Charge</u>	\$2,980.00 Per Month
<u>Energy Charge - All KWH</u>	.02158 Per KWH

SCHEDULE LPR-1-C2

<u>Consumer Charge</u>	\$2,980.00 Per Month
<u>Energy Charge - All KWH</u>	.02158 Per KWH

SCHEDULE LPR-1-B3

<u>Consumer Charge</u>	\$4,730.00 Per Month
<u>Energy Charge - All KWH</u>	.02128 Per KWH

SCHEDULE LPR-1-C3

<u>Consumer Charge</u>	\$4,730.00 Per Month
<u>Energy Charge - All KWH</u>	.02128 Per KWH